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INTRODUCTION

The Office of Internal Audit performed an audit of Sanilac County FIA for the period October 1, 1998 through December 14, 1998. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Sanilac County FIA had 40 full time equated positions (FTE's) at the time of our review. Sanilac County FIA provided assistance to an average 2,965 recipients per month during FY 1997, with total assistance payments of \$3,843,821 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Sanilac County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Phone Usage	ENP/SER
Medical Transportation	

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Sanilac County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

LOCAL OFFICE RESPONSE

The management of Sanilac County FIA has reviewed all findings and recommendations included in this report. They indicated in a telephone conversation that they are in general agreement with the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that Sanilac County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Supporting Documentation for Payments

1. Sanilac County FIA did not have a Payment Authorization (FIA-849) for 20 out of the 28 payments reviewed on the ES-440. However, there was documentation to support the payment on file. Also, there was one FIA-849 that did not have supporting documentation attached. There was also a payment on the ES-440 that had no FIA-849 or supporting documentation on file in the Accounting Office, as required by Accounting Manual Item 404. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Sanilac County FIA maintain the original FIA-849 with an attached invoice or other supporting documentation in the Accounting Office.

Monthly Closing of Books

2. Sanilac County FIA did not close its books monthly, as required by Accounting Manual Item 402. As of December 14, 1998, the month of April was still open. Closing the books at the end of each month helps ensure accuracy of the records and prevents unauthorized transactions from being entered at a later date to avoid detection.

WE RECOMMEND that Sanilac County FIA close its books each month when the monthly reports are prepared.

Medical Transportation Payments

3. Sanilac County FIA did not always maintain an up to date Medical Needs Statement (FIA-54A) for clients receiving medical transportation, as required by Accounting Manual Item 416 and Program Administrative Manual Item 825. We reviewed 21 cases and found no FIA-54A on file in any of the cases. The FIA-54A is necessary to document the need for medical transportation..

WE RECOMMEND that Sanilac County FIA retain updated FIA-54A's in the case files to support all Medical Transportation payments.

CIS Security Agreements

4. Sanilac County FIA was not properly maintaining CIS Security Agreements, as required by L-Letter 97-063. We reviewed 12 Security Agreements (FIA-3974A) and found 7 agreements where the status indicated on the FIA-3974A did not match the operator status recorded on the Operator Identification Report (PF-011) report. Keeping properly completed, updated CIS Security Agreements on file provides documentation that all

workers are aware of the duties and responsibilities associated with their status levels on CIS.

WE RECOMMEND that Sanilac County FIA ensure that correct up to date Security Agreements are on file for all employees who access CIS.

MA-010 Reconciliation

5. Sanilac County FIA did not reconcile all flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. Reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that Sanilac County FIA reconcile the flagged transactions on the MA-010 to the input documents.

Returned Food Coupons

6. Sanilac County FIA did not properly control returned food coupons. We found coupons which had been turned in by the public and which had been returned by a client for payment of a claim on hand in the safe. Food Stamp Issuance Instructions Manual Item 321 states that these coupons should be receipted in by the local office and destroyed locally upon completion of the Affidavit of Return or Exchange of Food Coupons (FNS-135). Completion of the FNS-135 and destruction of the food coupons helps to ensure that all food coupons are properly accounted for and are not misused.

WE RECOMMEND that Sanilac County FIA prepare all the necessary documentation and destroy the food coupons that have been returned by a client for payment of a claim or turned in by the public.

Knowledge of IRS Security Procedures

7. The Sanilac County FIA mailroom staff, FIS, ES, and new hires were unaware of the proper procedures to follow for confidential information received from the IRS. Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Sanilac County familiarize all staff with all aspects of the confidentiality laws for information received from the IRS.

Follow-Up of IRS Information

8. Sanilac County FIA did not always document on the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) that action was taken on information received from the IRS. We noted that for 3 of the 10 entries on the FIA-4488 there was no disposition information recorded and the FIA-4487A was not on file. Program Administrative Manual Item 800 states that FIA-4487A's are to be on file with the DSP, or their disposition must be documented on the FIA-4488.

WE RECOMMEND that the Sanilac County FIA DSP retain all FIA-4487A's until their disposition, and document the disposition of all FIA-4487A's on the Data Control Sheet.

Inventory of Receipts

9. Sanilac County FIA did not properly account for its Official Cashiers Receipts (FIA-3681) and Official Field Receipts (FIA-3543), as required by Accounting Manual Item 403. We found that the total column on the Controlled Document Log (FIA-4070) was not completed and could not be reconciled to the physical inventory. Properly recording controlled documents on the Controlled Document Log will help to ensure that loss, theft, or misuse of documents, would be detected on a timely basis.

WE RECOMMEND that Sanilac County FIA properly record the Official Cashier and Official Field Receipt on the Controlled Document Log.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Sanilac County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

CIS Status Codes

10. One of the bookkeepers issuing food stamps at Sanilac County FIA had an FLM status code on CIS and the other bookkeeper had IRG status. The FLM and IRG status would allow these individuals to make changes to a client's approved food stamp allotment, and then issue the food stamps to that client.

WE RECOMMEND that persons issuing food stamps be limited to inquiry only status on CIS.

NOTE: We were informed that Sanilac County FIA has customized the status of its bookkeepers so that they can no longer make changes to a client's approved food stamp allotment.

MA-010 Reconciliation - Supplemental Payments

11. Sanilac County FIA did not reconcile a sample of the Supplemental Payments listed on the Transaction Control Listing (MA-010) to the Supplemental Payment Authorization (FIA-13) and other supporting documentation, as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. Reconciling a sample of the Supplemental Payments helps to ensure that the payments are accurate and appropriate.

WE RECOMMEND that Sanilac County FIA reconcile a sample of the Supplemental Payments on the MA-010 to the FIA-13's and other supporting documentation.

Back Up Designated Staff Person

12. Sanilac County FIA did not have a Back Up Designated Staff Person (DSP) for handling confidential information received from the Internal Revenue Service (IRS). A backup DSP is necessary to ensure that information received from the IRS when the DSP is out of the office is kept confidential. Breach of confidentiality could result in the department being denied access to IRS information.

WE RECOMMEND that Sanilac County FIA appoint a backup Designated Staff Person to handle confidential information received from the IRS.